

Why the special relationship is still important



CITY COMMENT
IAN LUDER

AHEAD of this week's Conservative Party conference, it is perhaps a good time to recollect the wise words of one of the party's and country's most cele-

brated leaders. In response to a crisis far graver than the one we have just experienced, Winston Churchill coined the phrase "special relationship" to describe the close connection between the UK and the US.

When it comes to financial services, the two countries are more closely intertwined than ever. With our common heritage and values, we have a joint interest to create a global financial system that works both for us and for other financial centres, including those in Asia.

During my current visit to North America, I have seen first-hand the strength of feeling that banking failures have aroused, comparable levels to back home. The scale of US federal

bailouts ran into trillions and the concern – as job losses rise – is, if anything, more intense than in the UK.

Serious mistakes have been made on both sides of the Atlantic. But we now need to work together to ensure that past failings are not repeated.

Improved levels of transparency, accountability and risk management are all essential to restoring confidence in the financial system.

However, with a UK general election fast approaching and a new American administration keen to assert its authority we must ensure that regulatory reform does not become a source of political point-scoring. Any new legislation must be rigorously assessed, carefully target-

ed and globally coordinated.

Take, for example, suggestions that banks should hold more capital. Such a measure will reduce systemic risk and the likelihood of asset bubbles emerging.

This would not affect our competitiveness provided it is harmonised and international, with no exemptions. But it will mean less lending, and it could plausibly cause another downward spiral in property prices due to a lack of mortgage funding.

Far from being "socially useless", as FSA boss Lord Turner suggests, banks provide vitally important credit to consumers and businesses which helps to transform lives.

Later this week I will be travelling

to San Francisco and Los Angeles – two cities that stand as gateways to fast-growing markets such as China. The Golden Gate Bridge and the Port of Los Angeles both open out towards Asia, which is an increasingly important trading partner for the US.

Nevertheless, the ongoing exchange of talent, funding and ideas between the UK and the US will ensure we continue to have close business ties as the face of global finance changes. Churchill – himself half American, half British – was ahead of his time in recognising this over 60 years ago. His words remain just as relevant today as ever before.

Ian Luder is Lord Mayor of the City of London

Financials see the first signs of a recovery

► FINANCIAL SERVICES

By JAMES LINACRE

THE WORST could be over for the recession-battered financial services industry, according to a new survey which shows business volumes growing over the last three months – the first quarterly increase in two years.

The survey from employers' organisation the CBI and PricewaterhouseCoopers says business volumes in the three months to the end of September rose for 32 per cent of firms, but fell for 24 per cent.

The rounded balance of seven per cent is the first increase since a high of 23 per cent in September 2007.

There has been strong growth for securities traders and investment managers, while banks and building societies expect to see growth over the next three months.

Life insurers and insurance brokers do not expect growth in the next quarter, but are predicting a slower decline.

Profitability is also up, boosted by a fall in running costs. Total operating costs fell this quarter for a balance of 17 per cent of firms, and are

predicted to fall again next quarter.

Staff costs as a proportion of total costs fell for the seventh quarter in a row, with a net 30 per cent of firms reporting a reduction in employees.

Job losses are expected to continue throughout the next three months, albeit at a slower rate, which will mark a full two years of falling employment.

Uncertainty about demand is reported as the greatest obstacle to investment by 69 per cent of businesses. This is the fourth survey in a row, and the highest proportion of businesses for seven years, to cite the factor as the biggest problem.

The survey also records greater optimism throughout sector, with sentiment rising to the highest level since March 2004. A balance of 36 per cent of firms are more optimistic now about the general business situation than they were in June, which saw the first rise in two years.

Ian McCafferty, CBI chief economic adviser, said: "After nearly two years of exceptionally tough operating conditions, signs of a brighter outlook are appearing in the financial services sector."

BEST OF THE BROKERS

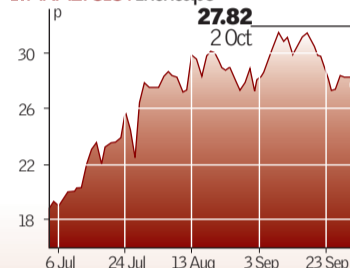
■ ANALYSIS | Chime Communications



■ ANALYSIS | Inchcape

KBC Peel Hunt said that Chime's takeover of Essentially Group – to form one of the world's most powerful full-service sports marketing organisations – is a good deal but not one without elements of risk. The broker indicated the potential upgrade that might result if and when the deal completes, and upgraded the stock to "buy".

■ ANALYSIS | Inchcape



■ ANALYSIS | Robert Wiseman

Panmure Gordon upgraded Inchcape from "hold" to "buy" and increased its target price to 42p from 29p, saying that recovery momentum will continue to build across the car industry in a number of its markets. The broker said there is 50 per cent potential upside to the revised target price and that the shares look good value.

■ ANALYSIS | Robert Wiseman



ROBERT WISEMAN

Investec said that it looks set to be a much stronger first half for Robert Wiseman in 2010 versus 2009, with volumes well ahead of new business wins and also a bounce back anticipated in margins. It has a "buy" recommendation, with a target price of 500p, and upgraded its full year expectations by around 10 per cent.

To appear in Best of the Brokers email your research to notes@cityam.com

Water firms lobby Ofwat over pricing

► UTILITIES

WATER companies are lobbying regulator Ofwat in a bid to convince it to relax plans for a strict pricing regime.

The change could see the average yearly bill fall by £14 before inflation to £330 a year.

Bosses from the firms met with Ofwat chief executive Regina Finn last week and pleaded for the proposals to be watered down before the final decision on pricing for the next

five years is announced on 26 November.

Ofwat shocked the industry in July when it published a draft ruling that water bills in England and Wales must fall in real terms by the end of 2015, making prices on average 12 per cent lower than the firms had been hoping.

The water companies have told Ofwat that they would be unable to repair Britain's creaking water infrastructure – which dates back to the

Victorian era in some cases – if profits were to fall.

Analysts estimate that water companies have invested some £80bn in water infrastructure since they were privatised in 1989.

Water firms also say they would struggle to pay dividends to shareholders should their profits dip. They pointed to a report showing that three quarters of investors in the space have been put off by Ofwat's proposals.

CITY MOVES | WHO'S SWITCHING JOBS

Edited by Victoria Bates



Foresters

The friendly society has hired industry heavy-weight Graham Berville to the board as a non-executive director. Berville was formerly director of the Association of Friendly Societies and chairman of the Association of Mutual Insurers, as well as a member and chairman of various Association of British Insurers (ABI) committees.

Prior to joining Foresters, he spent seven years as chief executive of the Police Mutual.

Altium

The stockbroking firm has appointed Hamish Dickson as head of securities. Dickson formerly worked for 16

years at ABN Amro, where he held a number of senior roles including head of European sales, head of equity sales and joint head of global institutional equities, where he was responsible for

850 staff across 20 countries.

Most recently, he worked as head of equities at Daniel Stewart during the firm's restructuring as an institutional broker.

PricewaterhouseCoopers

Alan McCrae has joined the accountancy giant's London team as an energy partner, leading the energy, utilities and mining tax team.

McCrae qualified with Ernst & Young in 1991 and eventually led the firm's oil and gas tax practice globally. In addition to being closely involved with advising on the UK and international tax aspects of transactions and deal-related activities for multinationals, he

also advised a number of independent oil and gas companies with headquarters in the UK and overseas.

Citibase

The serviced office firm has appointed Jonathan Addis as finance director.

Addis, a chartered accountant, was previously investment director at the private equity divisions of the Royal Bank of Scotland and Lloyds TSB.

He was most recently group finance director at construction, property and development consultancy DBK Group.

Burton's Foods

The biscuit group has appointed Ben Clarke as chief executive officer.

Clarke was most recently area director and vice president of Kraft Foods UK/Ireland, and has also been a director of the Food and Drink Federation, the Institute of Grocery Distributors and a council member of ISBA.

Sapura

The digital radio group has hired Stephen Mole as its new chief financial officer, replacing Steve Crowther, who steps down after six years at the firm.

Mole joins from Filtronic, where he was chief financial officer, and has held finance roles at Renold, Unilever and ICI. He is also a non-executive director of the Manchester Children's University Hospitals NHS Trust.